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Central Intelligence Agency



Washington, D.C. 20505

DDI- 03933-86

7 OCT 1986

The Honorable Bob McEwen
House of Representatives
Washington, D.C. 20515

Dear Mr. McEwen:

Enclosed is a short memorandum that addresses the question you raised about South African trade with members of the Nonaligned Movement (NAM) during my briefing of HPSCI on 30 September. At the recent NAM meeting in Harare, Zimbabwe, the member states agreed to a package of 13 voluntary sanctions against South Africa. None of the members, however, have yet officially implemented any of these sanctions. Moreover, at least 25 of the 43 NAM members from Sub-Saharan Africa have an ongoing trade relationship with South Africa. Only Zimbabwe, however, has a formal trade agreement with South Africa. [redacted] 25X1

I have also enclosed two other memoranda that examine the political and economic stability of South Africa--issues in which you and Congressman Cheney expressed interest. These two short papers update information presented in two estimates published in 1985 and 1984-- [redacted] 25X1

[redacted] 25X1
[redacted]. Tom Latimer of the HPSCI Staff is holding copies of these estimates for you. In addition, you may be interested in a recent estimate that deals with prospects for the ANC [redacted] 25X1

[redacted] 25X1
[redacted]. Again, the HPSCI Staff is holding a copy of this for you. [redacted] 25X1

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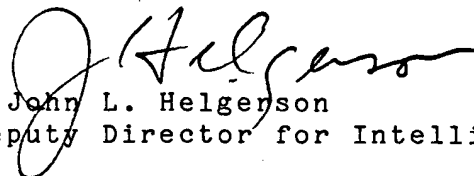
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The Honorable Bob McEwen

As always, we stand ready to respond to any other questions
you may have.

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Sincerely,



John L. Helgerson
Associate Deputy Director for Intelligence

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cc: Congressman Hamilton

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The Honorable Bob McEwen

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2 October 1986

MEMORANDUM

SUBJECT: South African Trade Relations with Countries of the
Nonaligned Movement

1. The 101 members of the Nonaligned Movement agreed to a package of 13 voluntary sanctions against South Africa during the Nonaligned Summit in Harare, Zimbabwe. The package, which included the sanctions adopted at the Commonwealth mini-summit in August, would:

- Ban air and shipping links with South Africa.
- Ban imports of South African fruit, vegetables, coal, uranium and steel.
- Halt further investment in South Africa.
- Prohibit the transfer of technology to South Africa.
- Stop the export, sale, or transport of oil to South Africa.
- Ban the sale of Krugerrands and any other coins minted in South Africa.
- Ban government contracts with companies that have a majority of South African shareholders.

So far, none of the member countries have implemented the sanctions package. Of the 43 member states from Sub-Saharan Africa, only one--Zimbabwe--has a formal trade agreement with South Africa. Nonetheless, we believe that 25 of the 43 African members still trade with South Africa (see table). [REDACTED]

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2. The South African-Zimbabwean preferential trade agreement is a holdover from the Rhodesian/UDI period, having first been signed in 1964 and renewed regularly since then. Under this accord, South Africa not only allocates import quotas for certain Zimbabwean manufactured goods (furniture, textiles, footwear) but also gives these products 5-20 percent reductions in customs duties. These quotas are extremely important to many Zimbabwean manufacturers. In 1985, Zimbabwe exported \$94 million of manufactured consumer goods of which nearly 70 percent went to South Africa. The agreement also gives South African exporters of manufactured goods preferential entry into the Zimbabwean market, but foreign exchange constraints have prevented South Africa from exploiting its side of the agreement. Nonetheless, South African exports to Zimbabwe exceeded \$160 million last year. According to Prime Minister Mugabe, the agreement was renewed without his knowledge before the Commonwealth summit held in London in August. Shortly before the Nonaligned Movement meeting in Harare, Mugabe publicly stated that Harare's decision to implement sanctions will override the trade agreement. However, Zimbabwe has yet to impose any sanctions on South Africa and business appears to be continuing as usual. [REDACTED]

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**AFRICAN NONALIGNED MOVEMENT MEMBERS KNOWN OR
SUSPECTED OF TRADING WITH SOUTH AFRICA***

Angola	Kenya	Swaziland
Botswana	Lesotho	Togo
Cameroon	Malawi	Zaire
Cape Verde	Mauritius	Zambia
Comoros	Mozambique	Zimbabwe
Congo	Nigeria	
Equatorial Guinea	Senegal	
Gabon	Sierra Leone	
Gambia	Seychelles	
Ivory Coast	Somalia	

* It is difficult to determine precisely the origin of all South African imports or the destination of all South African exports. While reporting accurate trade totals, South Africa hides trade in goods such as oil, platinum, and arms in a category called 'other unclassified goods'. As a result, it is impossible to determine precisely the quantity of oil imported or armaments exported. In the same way South Africa reports the origin or destination of most but not all of its trade. For example, South Africa reports its trade with the US and each of the major European countries, but reports its trade with Africa only as a total for the entire continent. Trade with many Middle East and Asian countries is included in a single category labelled 'Asia'. A recent move by Pretoria will make it even more difficult to follow South African trade. The monthly foreign trade report in September was significantly abridged, omitting the usual breakdown of trade by country and types of products.

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2 October 1986

MEMORANDUM

SUBJECT: South Africa: Sanctions Vulnerability and Regime
Stability

Vulnerability to Sanctions

1. In our judgment, South Africa is capable of weathering even comprehensive economic sanctions for several years, but at a serious cost to economic growth. []

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-- We believe the country can meet its basic needs in food, clothing, housing and medical care for an indefinite period. Stockpiles of food and important raw materials could keep the economy producing at near present levels, albeit with some disruptions. []

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2. Over the past 25 years South Africa has prepared for the implementation of economic sanctions by engaging in a program of import substitution and stockpiling designed in part to minimize the impact of an import cutoff of 3 to 4 years duration. []

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-- Pretoria has built and maintained substantial nonmilitary strategic stockpiles and accumulated a strategic oil reserve which would last more than three years -- even longer if rationed. []

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-- South Africa has employed subterfuge trade successfully to circumvent previous embargoes and has already made extensive preparations to overcome present and anticipated trade sanctions. []

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-- Over 90 percent of fixed investment is domestically held, limiting the potential impact of foreign disinvestment. []

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3. Nevertheless, Pretoria is not invulnerable to sanctions. Among its major vulnerabilities are:

-- A narrow export base (gold and diamonds account for nearly 60 percent of export revenues) makes South Africa vulnerable to a cutoff of foreign markets. Coal exports have grown substantially in recent years and now account for 10 percent or more of export earnings. []

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-- South Africa relies heavily on imported capital goods, including almost all of its computers and other sophisticated electronic devices. []

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-- The domestic chemical industry is unable to produce many of the essential catalysts and compounds used in mining and agriculture. []

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4. On balance, Pretoria's actions -- import substitution, strategic stockpiling and experience in circumventing other embargoes -- will allow it to keep the economy running at near current levels in the short run in the face of sanctions. The impact will be greater over the long term, however. []

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-- Long term growth will suffer as resources are diverted toward production of embargoed goods that South Africa cannot produce efficiently. []

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-- Temporary disruption of export revenues could endanger the debt rescheduling agreement reached in March. []

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-- Black unemployment will rise even faster as economic growth will be far below the 5 percent that academic studies estimate is needed merely to employ new entrants to the workforce. []

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Regime Stability

5. We believe that over the next five years Pretoria's economic, political and military resources are sufficient to avert the collapse of the white regime. However, a difficult period lies ahead. Black townships will remain tinderboxes, the white rightwing will be restive, and South Africa's beleaguered economy will grapple with economic sanctions. []

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-- Although sanctions and domestic unrest are likely to have only a limited immediate impact on economic performance, they damage investor confidence, encourage capital flight, slow growth, and shake white resolve. While the threat of a white backlash from the right cannot be discounted, we believe President Botha has and is already demonstrating the political skill and support to blunt the challenge from those whites who oppose even those reforms enacted so far, and to exploit sanctions by tapping white xenophobia over international interference. []

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-- Sanctions will exacerbate the socioeconomic pressures -- especially unemployment -- that are among the fundamental causes of black unrest. Together with heightened political consciousness these will sustain a climate conducive to episodes of violent protest. However, Pretoria's massive internal security apparatus will continue to be able to contain most violence in the black townships while President Botha forges ahead with his own limited vision of reform. [REDACTED]

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6. Overall, the government probably will rely more on its security resources than its reform initiatives to protect its stability, especially in the short term. We must also acknowledge that internal and external variables beyond the capacity of Pretoria to control -- and difficult to predict -- might fundamentally change black and white attitudes, setting in motion events such as more determined black resistance or collapse of white morale that would seriously threaten the regime. [REDACTED]

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[REDACTED]
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2 October 1986

MEMORANDUM**SUBJECT: Southern Africa: Economic Vulnerabilities**

1. South Africa dominates a regional economic network that provides significant economic benefits to all of its neighbors except Angola. Pretoria has made clear that it will not hesitate to use its economic muscle to retaliate against neighboring black countries should economic sanctions be imposed against South Africa by the West. In our judgment, the threat is credible and would cause considerable economic dislocation and hardship on regional economies while having only a minor impact on South Africa's economy. Neighboring black states have no ready or economically feasible alternatives to their dependence on Pretoria, and almost certainly would turn to the West, particularly the US, for relief. [redacted]

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South African Regional Economic Leverage

2. South Africa and its neighbors have forged a network of regional economic ties that include transportation links, trade, investment, and a substantial flow of migrant labor. According to Embassy reporting, official publications and open source information:

- South Africa has 75 percent of the region's rail network and the most efficient ports making transportation Pretoria's greatest source of economic leverage over its neighbors.
- About 350,000 workers from the neighboring states are legally employed in South Africa. One estimate also indicates that between 700,000 and 1,000,000 illegal migrants work in South Africa. Remittances from these workers are estimated to support an additional 3 million people in neighboring countries. During 1984, official data showed that the 210,000 foreign black workers employed in South African mines directly and indirectly remitted over \$500 million to their countries of origin through savings programs run by the mining companies.
- Most southern African states rely on South Africa for chemicals, petroleum, machinery, finished consumer goods, grain and other foods, although trade has declined recently.
- South Africans own the bulk of foreign investment in Botswana, Lesotho, and Swaziland, some one-third of direct foreign investment in Zimbabwe and a major share of Zambia's copper mining. In recent years, however, actions by the neighboring states to cut

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business ties have forced South African companies
to divest some of their regional holdings. []

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South African Regional Economic Vulnerability

3. Based on South African and IMF data we estimate that Pretoria earns about \$1.2 billion in foreign exchange from trade and other economic ties to neighboring countries. In our judgment, Pretoria could absorb the cost of selective economic retaliation with relatively little cost to itself.

- South Africa would lose more than \$100 million in revenue if it cut off regional rail service, but Pretoria would not be substantially affected by selective, self-imposed embargoes.
- Although foreign workers make up nearly 40-percent of the mining workforce the dismissal of selected workers would cause only short term disruptions. From Pretoria's perspective, high unemployment throughout the region would by and large prevent any serious long-term labor shortages. []

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Neighboring States Vulnerabilities

4. A review of trade and financial statistics shows that all neighboring states, except Angola, are vulnerable to South African economic retaliation.

Botswana

- All petroleum products used in Botswana come via South Africa and most are refined there.
- Nearly 19,000 Botswana miners are employed in South African mines and another 7,000 are legally employed in other sectors. An estimated 20,000 live and work illegally in South Africa.
- About three-quarters of the grain and 80 percent of the fruits and vegetables consumed are imported from South Africa.
- Receipts from the South African controlled Southern African Customs Union (SACU) account for over 20 percent of government revenues.

Lesotho

- Over 95 percent of imports originate in South Africa and all exports are either sold to or must be transshipped through South Africa.
- Remittances from the nearly 110,000 Basotho employed

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in South Africa account for about 50 percent of GDP.

- The Electricity Supply Commission of South Africa (ESCOM) supplies 100 percent of Lesotho's electricity.
- Receipts from the South African Customs Union (SACU) account for 70 percent of government revenues.

Malawi

- Nearly 95 percent of Malawi's petroleum comes from South Africa.
- Some 35,000 Malawians work in South Africa and provide the government with about \$12 million in foreign exchange annually.
- Nearly 40 percent of total imports come from South Africa while 6 percent of total exports go to SA.

Mozambique

- More than 60,000 miners and 90,000 other Mozambicans work legally in South Africa and provide \$50 million in foreign exchange earnings.
- ESCOM provides 60 percent of Maputo's electricity.

Swaziland

- Revenue from the Southern African Customs Union (SACU) account for over 60 percent of government revenues.
- More than 13,000 Swazi miners work in South Africa.
- South African firms own and operate major Swazi farms and tourist companies.

Zaire

- More than 40 percent of the minerals exported in 1985 were shipped through South Africa.
- Three-fourths of the food, petroleum, and chemicals used by Zairian mines and mills are imported through South Africa.

Zambia

- Zambia's Ndola refinery receives some feedstock from South Africa.
- Nearly half of Zambia's mineral exports are shipped by South African railway.

Zimbabwe

- About 90 percent of Zimbabwe's export and import traffic utilizes the South African transport system.

- South Africa is Zimbabwe's largest trading partner accounting for 20 percent of total trade.
- About 70 percent of Zimbabwe's manufactured exports go to South Africa. [redacted]

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Pretoria's Likely Moves

5. Past actions and public statements point to the fact that Pretoria recognizes the value of maintaining and even expanding its regional economic relations. In the past the government has used its economic leverage cautiously. In the event of new Western sanctions, we believe Pretoria initially would take a measured response designed to showcase its regional economic muscle and indicate to the West the cost of sanctions to the region.

- We believe that Pretoria first would expel selected foreign workers or disrupt selected rail links. At the same time the government likely would threaten to respond in kind to further Western economic actions.
- It is also possible that Pretoria will chose to engage in a campaign of economic sabotage -- perhaps to reinforce existing vulnerabilities, for example by attacking Zimbabwe's oil routes through Mozambique, or to strike at Angola where its leverage is limited. [redacted]

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Neighboring Countries Options

6. In our judgment, neighboring African countries have no realistic short-term options for lessening their economic dependence on South Africa or developing economically feasible alternative routes for their imports and exports. Faced with a South African squeeze, these nations almost certainly would turn to the West, and particularly the US, for relief.

- Alternate transportation routes through Angola, Mozambique and Tanzania are incapable of handling substantial additional traffic because of insurgency, poor maintenance, and operating problems.
- Few alternatives exist for the crude oil and refined petroleum imported from or transported through South Africa. Oil can be shipped from Dar es Salaam via the Tazara pipeline but at a substantially higher cost. Angolan crude oil, for example, is too heavy for the region's other refineries and the Beira-Mutare pipeline through Mozambique has been sabotaged repeatedly.
- The South African Development Coordination Conference (SADCC) formed in 1980 by nine southern and eastern African nations with the

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goal of reducing economic dependence on South Africa and promoting greater regional economic integration is further than ever from achieving these goals, in our view. Poor economic policy choices, drought, and low world prices for the region's major commodity exports have combined in fact to boost economic dependence on South Africa, Western donors, and policy advice from organizations such as the IMF. [REDACTED]

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